

NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF THE INSPECTOR GENERAL

REPORT TO CONGRESS

October 1, 1998 - March 31, 1999

THE NCUA MISSION

**TO ENSURE THE SAFETY AND SOUNDNESS OF CREDIT UNIONS
BY PROVIDING APPROPRIATE REGULATION AND SUPERVISION,
WHILE EFFECTIVELY MANAGING THE AGENCY'S RESOURCES
AND THE SHARE INSURANCE FUND**

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THE OFFICE OF INSPECTOR GENERAL MISSION

**TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS
IN NCUA PROGRAMS AND OPERATIONS,
AS WELL AS PREVENT AND DETECT FRAUD, WASTE, AND ABUSE**

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INSPECTOR GENERAL'S MESSAGE TO THE CONGRESS

In the wake of last year's passage of the Credit Union Membership Access Act of 1998, the agency worked quickly to implement new chartering and field of membership policies required by the Act. The new policy, known as IRPS 99-1 (Interpretive Ruling and Policy Statement), took effect on January 1, 1999, after the Board approved comprehensive changes at its December 17, 1998, meeting. The primary revisions concerned NCUA's policy on various types of federal credit union charters, and the criteria necessary to amend a credit union's field of membership. The final rule also clarifies overlap issues, mergers, policies regarding low-income charters and service to underserved areas, the definition of immediate family member or household, and the "once a member always a member" policy.

Just as the Board acted to issue the chartering policy, the American Bankers Association (ABA) filed suit against the new rule. On March 11, 1999, the United States District Court, Judge Colleen Kollar-Kotelly, denied the ABA's request for a preliminary injunction against implementation of the new chartering rule, especially with respect to credit union expansions.

Despite these diversions, the agency has implemented the new rules and credit unions are expanding by adding new select employee groups as permitted. NCUA has also pursued its Year 2000 (Y2K) compliance program and Results Act required Strategic and Annual Plans. We are monitoring all three areas, and report on agency progress in these areas throughout this report.

In March 1999, we hired an Electronic Data Processing (EDP) auditor to enhance our Y2K monitoring efforts as well as other technological audit and investigative work to come. For two weeks in October 1998, the entire OIG staff met to draft a new Strategic Plan, which updated our current Strategic and Five Year plan (1995-1999) following Results Act guidelines. We completely revised our plan and also complemented the agency's efforts under the Results Act. The four goals for the OIG plan are: 1) to promote economy, efficiency, and effectiveness in NCUA programs and operations; 2) to improve NCUA financial management; 3) to prevent and detect fraud, waste and abuse in NCUA programs and operations; and 4) to communicate effectively with the NCUA Board, the Congress and other stakeholders.

Over the next two years, our audit work will concentrate on the agency's handling of the Y2K preparation in the credit union community as well as within the agency. We will also monitor the agency's ongoing construction of its Strategic and Annual Plans. On the investigative side, we intend to provide integrity awareness training for agency employees in oral and written forms.

AUDIT HIGHLIGHTS

Under contract with the Office of Inspector General, our independent auditors, Deloitte & Touche, expressed unqualified opinions on the agency's financial statements, reporting that they presented fairly NCUA's financial position as of December 31, 1998. OIG auditors oversaw the audit, which included the agency's four funds: the Operating Fund; the Share Insurance Fund; the Central Liquidity Facility; and the Community Development Revolving Loan Program.

OIG auditors completed an audit of NCUA's merit promotion program during this period. The report concluded that the NCUA merit promotion program was not in complete compliance with merit system principles. NCUA merit promotion policies and procedures are substantially reasonable but could use improvement and the agency's affirmative action program for merit promotions could be strengthened. NCUA has already begun implementing actions to correct noted problems.

In responding to the Y2K computing crisis, the OIG completed a review of NCUA's waiver process. OIG auditors noted that waiver actions were justified; there was a lack of documented follow-up actions; the waiver process was lengthy; and additional attention may be needed for federally insured state chartered credit unions. The OIG has three additional Y2K reviews in process. Other Y2K reviews are evaluating NCUA's internal systems compliance and project management; reviewing credit unions without waivers for accurate reporting of the Y2K renovation phase; reviewing the status of vendors who are providing renovated and updated systems to credit union clients; and reviewing NCUA's Y2K monitoring of high risk credit unions.

The OIG also participated in a joint review of the Federal Financial Institutions Examination Council's training program. The NCUA Inspector General joined the Inspectors General of the Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, and the Department of the Treasury in this joint audit report which contained four recommendations to improve program management and effectiveness and discussed options and considerations for implementation.

INVESTIGATIVE HIGHLIGHTS

As anticipated in the last reporting period, we completed work on the great majority of investigations related to the 1997 OPM report of improper personnel practices at the NCUA. Unfortunately, the delay by the Office of Special Counsel in issuing its own report on OPM related matters has prevented the NCUA Board from acting in some related cases. During this period we turned to other administrative issues, most of which were closed.

FUTURE PLANS

The major projects for the next reporting period will be: 1) monitoring the completion of the agency's Y2K compliance efforts in the credit union community and within the agency and; 2) overseeing the achievement of its annual goals. We will also continue refining the OIG annual plan and informally assess the planning process.



Frank Thomas
Inspector General

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NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. NCUA is funded entirely by credit unions; it does not receive any tax dollars. As of December 1998, the NCUA was supervising and insuring 6,815 Federal credit unions and insuring 4,180 state-chartered credit unions, a total of 10,995 institutions. This represents a loss of 166 Federal and 77 State chartered institutions since end of 1997, for a total loss of 243 credit unions nation-wide.

NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the National Credit Union Administration, the NCUA Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program.

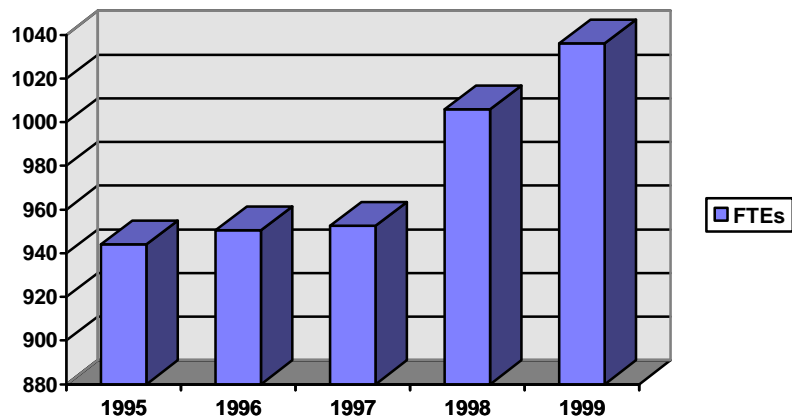
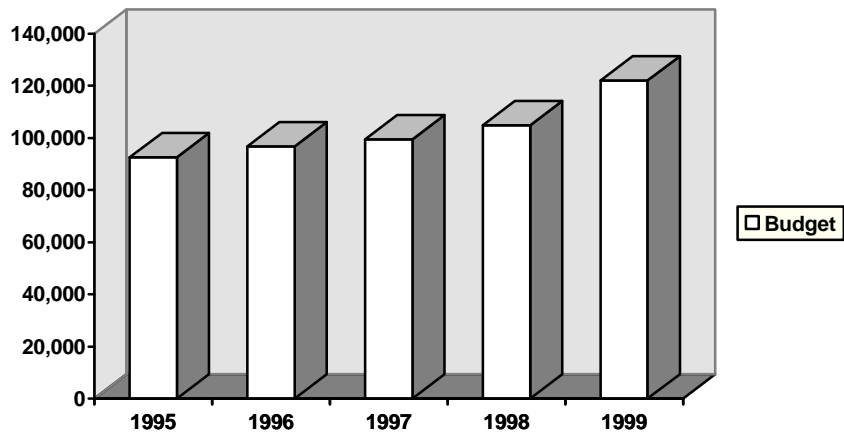
The National Credit Union Administration executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Lisle, Illinois; Austin, Texas; and Concord, California. NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA organizational chart on page 3.

The NCUA Board adopted its 1999 budget on November 19, 1998. The final revised 1999 budget of \$121,962,349 represents an increase of \$12.6 million over the 1998 budget. The Full Time Equivalent (FTE) staffing authorization requested for 1999 is 1036.15, an increase of 30.40 positions over the 1998 total of 1005.75.

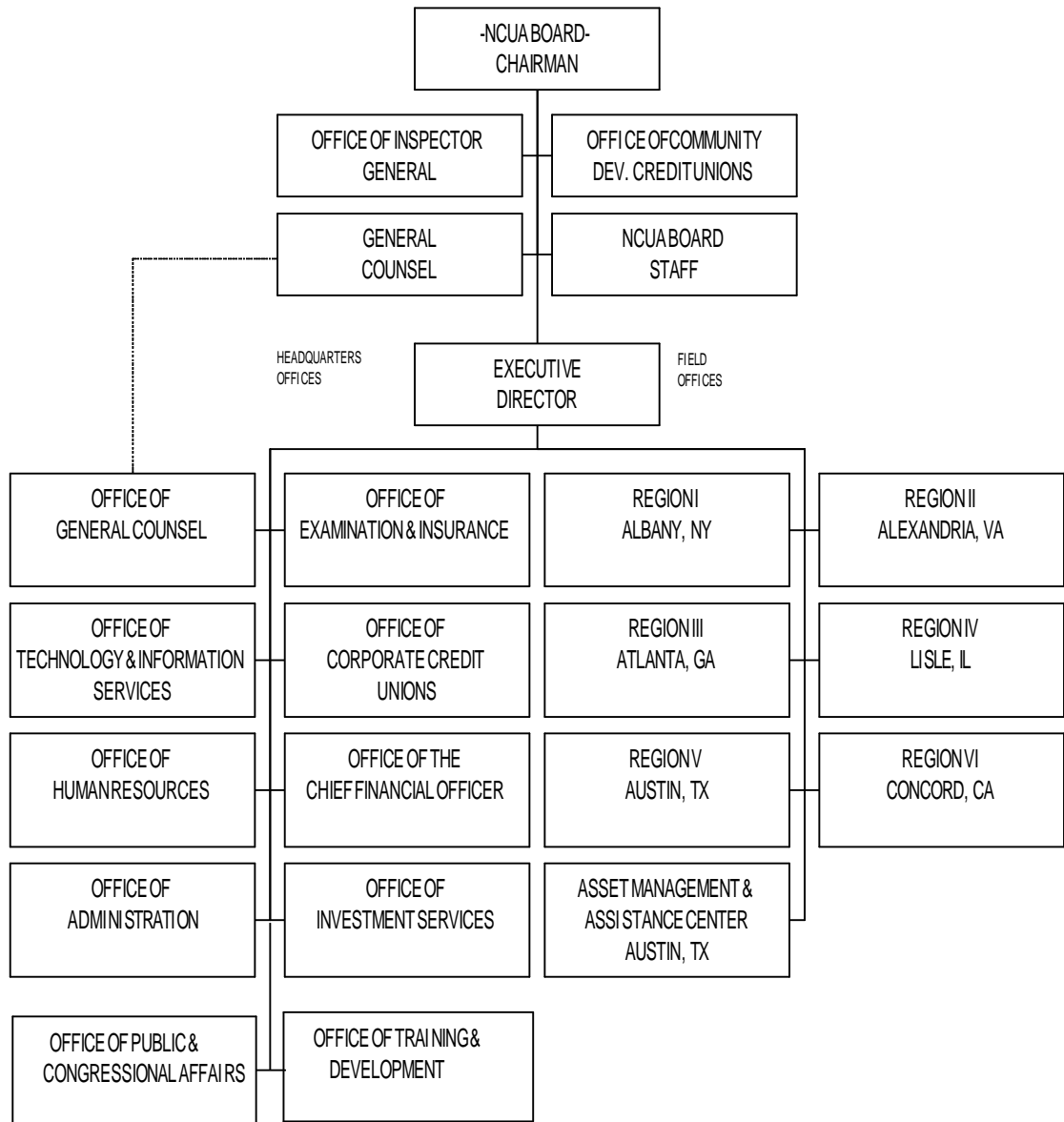
The significant increase in the 1999 budget is necessary to provide for expanded program goals and objectives for 1999, including employee merit increases, the Year 2000 (Y2K) compliance issues, and an expanded corporate credit union program. The largest part of the increase is for Y2K compliance, to ensure the integrity of credit union information systems.

	1999	1998	Difference
LOCATION	FTE	FTE	FTE
Headquarters	228.40	214	14.40
Regional Offices	167.25	155.75	11.50
Field Examiners	640.50	636	4.50
Total Positions Authorized	1036.15	1005.75	30.40

Year	Agency Budget	FTE
1995	\$92,700,000	944
1996	\$96,800,000	950.5
1997	\$99,400,000	954.5
1998	\$104,800,000	1005.75
1999	\$122,000,000	1036.15



NCUA ORGANIZATION CHART



NCUA HIGHLIGHTS

Follow-up on last Semiannual's Highlights

CHARTERING POLICY ISSUED PURSUANT TO NEW LAW

Pursuant to the Credit Union Membership Access Act of 1998 (CUMAA), signed into law by the President on August, 7, 1998, the NCUA Board issued a revised chartering manual permitting credit unions once again to expand their fields of membership by merging with non-affiliated groups, within certain parameters, beginning January 1, 1999. Two other new rules, defining "immediate family member" and "local community", became effective on March 5, 1999, because they were subject to Congressional review.

BANKERS LOSE EFFORT TO STOP NEW RULES

On March 11, 1999, U.S. District Judge Colleen Kollar-Kotelly denied the American Bankers Association's (ABA) request for a preliminary injunction against the Chartering Manual adopted by the NCUA Board in December 1998, in compliance with the CUMAA. The Act overturned last year's Supreme Court ruling that NCUA improperly permitted credit unions to expand by adding nonaffiliated groups.

In a related action, the U.S. Court of Appeals for the District of Columbia, on October 14, 1998, vacated the nationwide injunction imposed nearly two years earlier that prohibited credit unions from expanding. Now the CUMAA permits credit union expansions of unaffiliated groups as long as consistent with the new chartering policy.

We have reviewed all the new regulatory changes, as required by the IG Act, for economy and efficiency.

New Highlights

BOARD AGREES ON SMALL CREDIT UNION PROGRAM

After tabling the issue in December, the Board endorsed a national program to promote small credit unions and to encourage the formation of new credit unions, on March 18, 1999. The Small Credit Union program (SCUP) depends on individual employee Economic Development Specialists (EDS), who will work within each NCUA Regional Office and report to the Regional Director, to promote credit union services to people of modest means, and increase credit union access to underserved communities. The EDS's will also provide technical assistance to

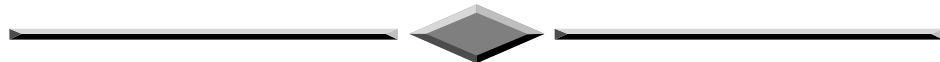
financially healthy small credit unions and help them provide good service to members.

We plan to audit the small credit union program and related activities in 2000.

BOARD ASKS CONGRESS FOR CLF CAP ADJUSTMENT

On February 25, 1999, Chairman D'Amours asked the House Appropriations Subcommittee to remove the borrowing cap on the NCUA's Central Liquidity Fund (CLF). The reason for the request is anticipated high liquidity demand on credit unions resulting from public Y2K concerns. Under the Federal Credit Union Act, the CLF is permitted to borrow up to twelve times its subscribed stock and surplus, or about \$18.5 billion. However, it is currently capped by a \$600 million appropriation limit. While it is difficult to gauge the potential demand on the credit union system due to the Year 2000 date change, estimates range from \$2 billion to \$20 billion. For example, if each of the estimated 15 million households which use a credit union as their primary financial institution withdraws an extra \$500 at the end of 1999, the credit union system will be faced with an extra liquidity demand of \$7.5 billion.

The CLF was audited as part of our annual financial audit of all four NCUA funds. We had no recommendations.



FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit semiannual call reports (financial statement data) to NCUA. An NCUA staff assessment of the 1998 end-of-year call reports submitted by all federally insured credit unions for the period ending December 31, 1998, found that despite the expansion limitations of the last few years, assets and shares grew significantly and the number of members increased. Double digit savings growth provided an influx of funds that was primarily placed into investments while credit union lending grew 5.8%

ASSET GROWTH AND CAPITAL ACCUMULATION CONTINUE

Assets grew by 10.7%, up from \$351.2 to \$388.7 billion. Capital increased, but at a slower rate, 8.8% (a \$3.7 billion increase), and the capital to assets ratio declined 11.5%

LOAN GROWTH INCREASES AT A SLOWER RATE

Loans grew 5.8%, up from \$232.2 to \$245.7 billion. Two loan categories accounted for the increase: First mortgage real estate loans increased \$9.5 billion (18.3% increase); and used auto loans increased \$4.9 billion (11.4% increase). Federally insured credit unions granted \$27.1 billion in fixed rate first mortgage real estate loans in 1998-more than double the amount granted in 1997. During this same period, \$4.5 billion adjustable rate first mortgages were granted, nearly equal to the amount granted in 1997.

The slower rate of loan growth (5.8%) ended a 5-year trend of loan growth exceeding the rate of share growth (10.7% for 1998.) As a result, the loan to share ratio decreased to 72.3%, the lowest level since 1995.

SHARES INCREASE, LED BY SHARE DRAFTS

Total shares increased \$32.8 billion or 10.7% in 1998, compared to 7.1% in 1997, with most of the growth in share drafts (18.8% increase). Consistent with the large increases in share drafts, regular shares and money market accounts, share growth in 1998 was concentrated in shares with maturities less than one year. These shares increased \$30.4 billion (11%) and represented 93% of all share growth.

BANKRUPTCIES INCREASE BUT DELINQUENT LOANS DECREASE

Delinquent loans decreased \$179 million or 7.7%, and the delinquent loans to total loans ratio also decreased from 1.01% at the end of 1997 to 0.88% at the end of 1998. This represents the lowest delinquency rate since 1994. While the

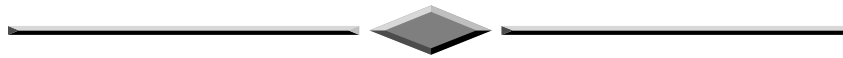
delinquency ratio declined, the net charged off loans to average loans ratio remained unchanged at 0.6% for 1998.

Bankruptcies continue to increase. Credit unions reported nearly \$1 billion in outstanding loans subject to bankruptcies, and another \$781 million charged off in 1998 as a result of bankruptcies. Nearly 250,000 credit union members filed for bankruptcy in 1998 (approximately the same number as reported for 1997) representing 0.3% of all members.

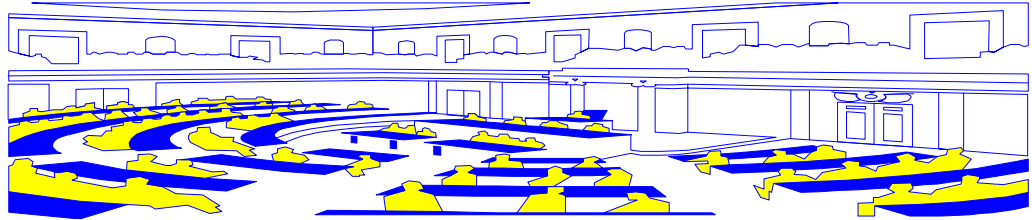
Membership grew by 3% to 73.54 million persons. Savings grew 10.7%, up from \$307.2 to \$339.99 billion. Investments grew 21.4% up from \$102.7 to \$124.6 billion. Income grew 6.7%, up from \$28.5 to \$30.4 billion. Delinquencies declined from 1.0% to 0.9%.

While total loan growth slowed somewhat from the 1997 rate, first mortgage real estate loans surged 18.3% in 1998, increasing from \$51.9 to \$61.3 billion. First mortgage loans now lead as the single largest loan category, although new and used automobile loans combined, remain the largest portion of the credit union loan portfolio.

For the first time, the call report collected data about e-mail and web sites. A total of 3,539 federally insured credit unions reported an e-mail address, 2,079 reported a web site, and 490 reported an interactive web site.



LEGISLATIVE HIGHLIGHTS



CREDIT UNION LEGISLATION LAST SESSION 105TH CONGRESS

The last session of the 105th was notable for its passage of the Credit Union Membership Access Act (Pub.Law 105-219), reversing the Supreme Court's ruling against NCUA's definition of expansion for credit unions. The VA-HUD appropriations act for FY 1999 also gave an additional \$2 million to the Community Development Credit Union Revolving Loan Fund. Public law 105-164 permitted NCUA to examine vendors for Y2K readiness.

BANKRUPTCY BILLS CONSIDERED BY BOTH HOUSES

Both the House and Senate considered bankruptcy bills during the second session of the 105th Congress. Credit union trade organizations were looking to ensure that both bills included provisions allowing credit union members to reaffirm debts without requiring judicial review. Such a provision is included in H.R. 833, but not yet in S. 625.

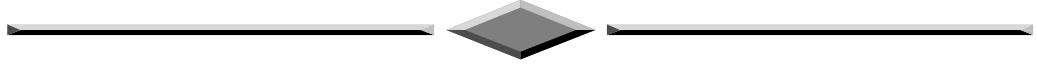
ATTACKS ON IG INDEPENDENCE FROM OUTSIDE SOURCES

Recently, attacks on independence of the Designated Federal Entity (DFE) (non-Presidentially appointed) IG's have issued from two separate forums. In the first, the Professional Ethics Committee of the American Institute of Certified Public Accountants (AICPA) proposed a rule revision that deemed the DFE IG's were not sufficiently independent to issue audit reports under Generally Accepted Auditing Standards. Under the proposed AICPA definition, the Presidentialy appointed IG's would be treated as independent auditors, but the DFE IG's would be treated as "internal auditors" because they are appointed by their agency heads.

The second attack was a decision issued by a Federal Labor Relations Authority (FLRA) administrative law judge in an unfair labor practice charge against the NLRB OIG. He concluded that the NLRB Inspector General was part of "management" as defined by the Federal Service Labor-Management Relations Statute, and thus the IG investigator was required to permit a union representative to be present during an OIG investigative interview. The issue of union representation in an OIG interview is being reviewed by the Supreme Court in

FLRA v. NASA OIG, 120 F.3rd 1208 (11th Cir.1997), *cert granted*, 119 S.Ct. 401 (1998).

These attacks are a troubling indication of a perception by some influential outside parties that IG's appointed by their agency heads are somehow less independent than Presidentially appointed IGs. We hope to work with the other DFE OIG's to address these issues with Congress.

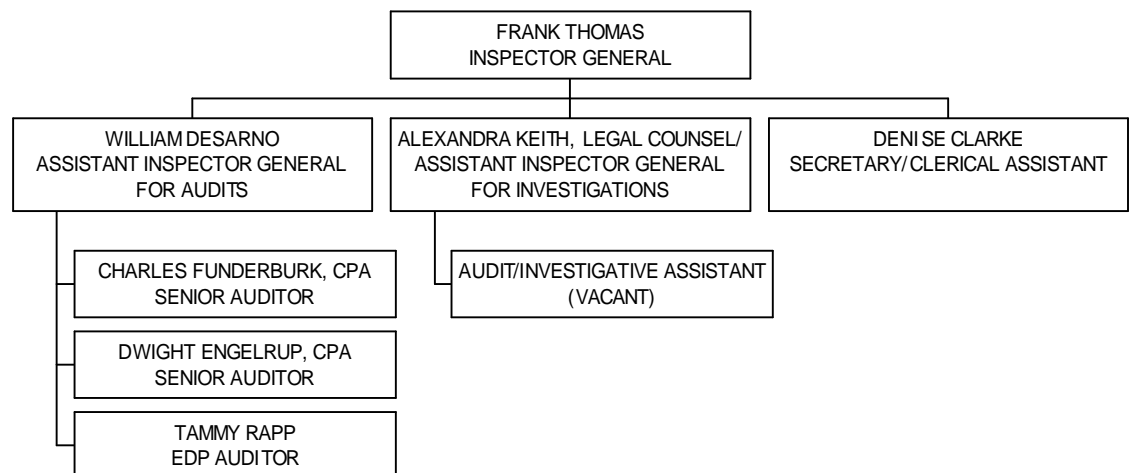


OFFICE OF INSPECTOR GENERAL

The Office of Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended in 1988. The staff consists of the Inspector General, an Assistant Inspector General for Investigations/Counsel, an Assistant Inspector General for Audits, two Senior Auditors, an EDP Auditor and a Secretary/Clerical Assistant. In addition to these positions, the OIG has announced a vacancy for a part-time Investigator.

The Inspector General reports to, and is under the general supervision of, the NCUA Board. The Inspector General is responsible for:

1. Conducting, supervising, and coordinating audits and investigations of all NCUA programs and operations;
2. Reviewing policies and procedures to ensure efficient and economic operations as well as preventing and detecting fraud, waste, and abuse;
3. Reviewing existing and proposed legislation and regulations to evaluate their impact on the economic and efficient administration of agency programs; and
4. Keeping the NCUA and Congress apprised of significant findings and recommendations.



AUDIT ACTIVITY

AUDIT REPORTS ISSUED

Financial Audits

Our contract accounting firm, Deloitte & Touche, issued opinions on the 1998 financial statements of the NCUA Operating Fund, the NCUA Share Insurance Fund, the Central Liquidity Facility (CLF), and the Community Development Revolving Loan Program (CDRLP). The auditors found that the financial statements presented fairly the financial position of the agency's funds as of December 31, 1998. The firm issued its opinions on February 26, 1999.

1. **The NCUA Operating Fund** was established as a revolving fund managed by the National Credit Union Administration Board for the purpose of providing administration and service to the federal credit union system.

The auditors issued an **unqualified opinion** on the Operating Fund's financial statements. The Fund's total assets for 1998 were \$57.2 million, up from \$52.4 million in 1997.

2. **The NCUA Share Insurance Fund** was established as a revolving fund managed by the NCUA Board to insure member share deposits in all Federal credit unions and qualifying state credit unions up to \$100,000 per shareholder account.

The auditors issued an **unqualified opinion** on the Share Insurance Fund's financial statements. The Fund's total assets for 1998 were \$3.9 billion, up from \$3.7 billion in 1997.

3. **The Central Liquidity Facility** was established as a mixed ownership government corporation managed by the NCUA Board to improve general financial stability by meeting the liquidity needs of credit unions.

The auditors issued an **unqualified opinion** on the CLF's financial statements. The CLF's total assets for 1998 were \$806 million, up from \$773 million in 1997.

4. **The Community Development Revolving Loan Program's** purpose is to stimulate economic activities in the communities served by low-income credit unions. This in turn, will result in increased income, ownership and employment opportunities for low-wealth residents and other economic growth.

The auditors issued an **unqualified opinion** on the Program's financial statements. The CDRLP's total assets for 1998 were \$10.8 million, up from \$8.8 million in 1997.

Deloitte & Touche made five recommendations in its management letter applicable to all four funds. The auditors' recommendations related to data processing firewall security; account security; SAP security; staffing within the Office of Technology and Information Services (OTIS); and Data Center access.

Merit Promotion Audit, Report No. 991, dated February 9, 1999

The OIG conducted an audit of NCUA's merit promotion program to: first, determine if NCUA's merit promotion program complied with merit system principles; second, review NCUA merit promotion policies and procedures for reasonableness and assess compliance with such policies and procedures; and third, to determine if NCUA had a valid affirmative action plan for merit promotions and to assess compliance with this plan.

Our audit included merit promotion actions for the years 1995 through 1997 for Grades CU-13 and above. We reviewed 87 of the 183 merit promotion case files for this time period, interviewed appropriate NCUA staff, and reviewed related investigations, among other audit procedures.

The report concluded that the NCUA merit promotion program was not in complete compliance with merit system principles, NCUA merit promotion policies and procedures are substantially reasonable but could use improvement, and the agency's affirmative action program for merit promotions could be strengthened. NCUA has already begun to implement actions which are moving towards correcting the noted problems.

None of the merit promotion case files we reviewed contained a job analysis or crediting plan. This placed NCUA in non-compliance with Federal personnel regulations and cast doubt upon the objectivity and fairness of the rating process. The NCUA Office of Human Resources (OHR) began implementing job analyses and crediting plans for all positions in January 1998. In addition, training had been lacking for staff responsible for preparing job analyses and crediting plans. Some of this training has subsequently been instituted by OHR.

Nearly three out of four Senior Staff Positions (SSP) and one out of eight CU-reviewed case files lacked documentation on a rating panel convening or evidence of the rating scores. Our interviews revealed that raters had received no training and only minimal guidance on their duties and responsibilities. OHR has advised us that training will be provided and internal controls for file documentation will be tightened.

Seven case files selected for review could not be located, 40 percent of SSP and 20 percent of CU case files reviewed had either missing applications, applications which were not received timely or receipt of applications was not noted for applicants rated as qualified. Approximately 15 percent of case files reviewed lacked applicant performance appraisals or had unsigned performance appraisals in the files. A case file document review checklist is not required and when one was present in a case file, it was frequently incomplete. In addition, when an exception to policy was asserted, substantially every such case had no documentation or signed OHR approval in the case file. OHR has plans to implement internal controls to correct these problems.

In four cases we noted selections where a lesser-ranked candidate was selected over higher-ranked candidates. The supporting documentation for such exceptions was either missing or inadequate. In addition, the selection of lesser-ranked candidates negates the purpose of candidate rating and ranking and gives the appearance of unfairness.

NCUA promotion actions generate a relatively low number of applicants. Twenty-two percent of our sampled cases did not generate an acceptable number of applicants to ensure attracting applicants from all segments of society and more than half of the announcements generated fewer than five applicants. OHR plans to work with a contractor to determine "best practices" for attracting applicants.

NCUA has established agency goals and benchmarks for women and minorities in mid to senior level positions. However, there has been a lack of documented analysis as to the causes or impediments to the shortfalls in the CU-13 and above positions. Although this is not required under EEO regulations, it seems apparent that such an analysis should be performed.

During the time period of our audit, the former Executive Director instituted an affirmative action program, whereby he became the *de facto* selecting official and the specific applicant identification of race, gender and handicap status was required to be annotated. The implementation of this program, which has been rescinded, resulted in prohibited personnel practices.

We offered 24 recommendations for improving the NCUA merit promotion program. Overall, OHR and the Office of Equal Opportunity Programs agreed with our recommendations.

Year 2000 Waiver Process Review, Report No. 992, dated March 31, 1999

We evaluated NCUA's efforts in monitoring and assisting federally insured credit unions to address Year 2000 (Y2K) date compliance through the waiver process. The specific objectives of our review were to determine if NCUA had adequate

justification for granting credit union Y2K compliance waivers, and whether NCUA is exercising timely and appropriate waiver follow-up.

We observed that waiver actions were justified; there was a lack of documented follow-up actions; the waiver process was lengthy; and additional attention may be needed for federally insured state chartered credit unions.

Our review of thirty five waiver actions in Regions II, III, and V, indicated that the reasons given for the waiver/extension requests were valid and the actions approved were justified. The waiver request documentation submitted by the credit unions and/or examiners was sufficient to warrant the approval of the waiver or extension of the milestone dates. The primary reasons for waiver requests were institutions converting from one information system to another or upgrading their current system. Most identified issues were beyond the control of the credit union. In most instances the examiner indicated that credit union management had the ability to complete the conversion/upgrade and could meet succeeding milestone dates.

In the majority of cases in our review (more than 70 percent) we found limited evidence of documented follow-up and monitoring of existing waiver actions by examiner and regional office staff. However, when we performed follow-up with staff we found that some follow-up was being performed.

In a limited number of instances (17 percent) in our review sample we found inconsistent recommendations for removal of outstanding waiver or extension actions. In some cases if the action was substantially complete the examiner recommended removal of the action, while in others the action was completed prior to removal.

NCUA staff do not perform testing of information systems to ensure Y2K readiness in credit unions. Each calendar quarter the examiner receives a hard copy status report from assigned credit unions indicating the status of Awareness, Assessment, Renovation, Testing, and Implementation phases for critical and non-critical information systems. The examiner reviews, inputs and uploads the information to the agency database. The quarterly information is reviewed by the Y2K specialist for apparent completeness and then the information is forwarded to NCUA's Office of Examination and Insurance (E&I.)

Waiver turnaround time starts from the date the request leaves the examiner or credit union, is processed through the regional office, processed in E&I, returned to the Regional Office, and the Regional Director's letter is finalized and sent to the credit union. This process often takes up to and in excess of sixty days. In some cases, the extension period had already expired by the time the waiver approval was communicated to the credit union.

As the volume and complexity of the cases have increased, the backlog and total process time has also increased. Processing time in E&I alone for the first fifty

extensions and waiver actions were completed, on average, in seven days. However, the last fifty extensions and waiver actions were completed in 24 days on average. As the numbers and complexities of waiver actions increase, so does the backlog. The December 1998 backlog in E&I was thirty five actions, while the February 1999 backlog was fifty actions.

At the time of our review, in two of the three regions there were fewer waiver/extension requests as a percentage of federally insured state chartered credit unions (FISCUs) compared to Federal credit unions (FCUs). At the same time there was a larger percentage of FISCUs that were not one hundred percent renovated, as compared to FCUs. One large information system vendor with clients not fully renovated as of January 31, 1999, indicated that 43 of the 70 clients served by the vendor were FISCUs. While we saw no direct evidence of a lack of regulatory Y2K effort by state supervisory authorities in FISCUs, the information mentioned above is troubling and indicates that increased attention may need to be devoted to FISCUs.

The OIG offered five suggestions as matters for consideration by the NCUA Board and agency management to improve the Y2K waiver process.

Joint Review of the Federal Financial Institutions Examination Council's Training Program, dated March 31, 1999

The Inspectors General of the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Department of the Treasury, and the National Credit Union Administration completed a joint review of the Federal Financial Institutions Examination Council's (FFIEC) training program.

The review team found that the FFIEC is meeting its legislative mandate by sponsoring required risk management seminars and training courses. The team observed that the program consists primarily of conferences and seminars on specialized topics that are a supplement to, rather than an integral part of, the member agencies' own examiner education programs. The joint audit report contained four recommendations to improve program management and effectiveness and discussed options and considerations for implementation.

OIG ISSUES STRATEGIC AND ANNUAL PLANS

As noted in the IG's Message, the entire OIG staff met in October 1998, to draft the OIG Strategic and Annual plans for 1999-2003. These plans focus on helping the agency meet its goals—immediately with the Y2K concerns, and longer-range, such as with improved budgeting and financial planning. Our four goals for the OIG plan are: 1) to promote economy, efficiency, and effectiveness in NCUA programs and operations; 2) to improve NCUA financial management; 3) to prevent and detect fraud, waste and abuse in NCUA programs and operations; and 4) to communicate

effectively with the NCUA Board, the Congress and other stakeholders. We have begun implementation of the 1999 Annual Plan. This Plan includes Y2K-related audits of internal systems compliance, progress of high risk rated credit unions, and information system vendors. Our 1999 legal and investigative projects include: investigative survey work to determine what agency operations lack internal controls, a review of travel reimbursements to senior managers, and agency outreach.

AUDITS IN PROCESS

Y2K Internal Systems Compliance and Project Management

We are currently reviewing a draft report prepared by an independent contractor that addresses Y2K compliance for internal NCUA information systems. The review objective was to provide an independent analysis of Y2K testing for each of the seven mission critical systems identified by NCUA, to determine whether NCUA testing is in compliance with federal standards and industry practice. The contractor also assessed NCUA's overall Y2K project management against federal standards and those utilized by other clients.

Review of Credit Unions Without Waivers for Accurate Reporting of Y2K Renovation Phase

Our first Year 2000 review focused on credit unions that requested waivers and extensions of milestone dates primarily for renovation. The main reasons for granting waivers and extensions were credit union data processing system conversions and vendor inability to meet milestone dates. Most credit unions were reported to be making satisfactory progress and had not requested waivers or extensions to the milestone dates. We are in the process of preparing a management report of our review of a sample of credit unions that did not request waivers or extensions to determine whether they complied with the January 31, 1999, milestone for completion of the renovation phase, and to determine if the December 31, 1998, quarterly reports filed by the credit unions were reporting accurate results of the renovation phase.

Y2K Credit Union Vendor Status

We have initiated a review of credit union computer system vendors' status and of the actions NCUA is taking to ensure that vendors are making satisfactory progress in providing renovated systems to its credit union clients. Credit unions must meet certain milestones established by NCUA in preparing its computer systems for the Year 2000. In some cases, credit unions are missing these key milestones because

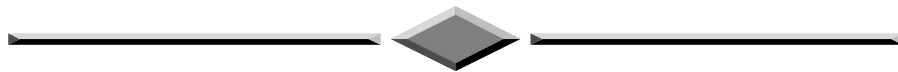
they are waiting for their computer system vendors to provide them with renovated or updated systems. This review will examine NCUA's actions to monitor the status of information system vendors.

AUDIT RECOMMENDATIONS OUTSTANDING


Our audit report on Credit Union Examination Flexibility (No. 97-06, issued on June 11, 1997) recommended that the Office of Examination and Insurance (E&I) perform a thorough cost/benefit analysis to determine the most cost effective examination frequency policy for the next five years. The report stated that the analysis should be performed in conjunction with the preparation of the NCUA five-year strategic plan.

On October 17, 1997, NCUA's Acting Executive Director responded to this recommendation by stating that he did not believe the thorough cost benefit analysis requested in this recommendation could be completed in time to have input on the current five-year plan. However, he stated that NCUA would begin the process within E&I to perform this study.

We recently met with the E&I Director on the status of this recommendation. He told us that the 1998 and 1999 examination programs include deferred examinations for select credit unions due to the increased workload imposed by the Y2K computing crisis. He told us that the results of the extended cycles and the impact on these select credit unions will be the basis of the study that evaluates the cost/benefit of flexible examination cycles. E&I will observe and analyze the data from the deferred examination programs in 1998 and 1999 and issue its findings and recommendations by June 30, 2000.



INVESTIGATION ACTIVITY

Investigative matters pursued by this office are generally initiated as a result of allegations, or because of potential findings of fraud, waste, abuse, corruption, or mismanagement.  Investigations may involve possible violations of regulations regarding employee responsibilities and conduct, Federal criminal law, and other regulations and statutes pertaining to the activities of NCUA employees. Investigative findings may lead to criminal prosecution, civil prosecution, or administrative action.

The OIG also receives complaints from credit union members that involve NCUA employee program responsibilities. These complaints are usually examined to determine whether there is any allegation of NCUA employee misconduct. If not, the complaint is referred to the appropriate regional office or closed if contact with the regional office indicates that the complaint has been appropriately handled.

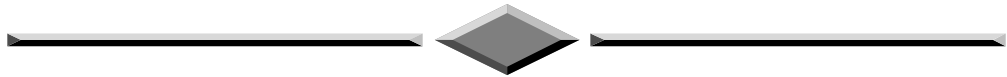
Investigative Contacts

Contacts/inquiries/investigations carried forward from previous reporting period	7
Contacts initiated during report period	8
<i>Total contacts during reporting period</i>	15
<u>Less:</u>	
Contacts closed for lack of verifiable evidence or referred to another office	5
Reports issued and matters closed	4
<i>Pending contacts</i>	6

MAJORITY OF OPM-RELATED OIG WORK COMPLETE

Of the three investigative reports we issued during the last reporting period relating to OPM issues, one has been closed with Board action. Two remain open. We expect to complete the one pending case relating to OPM issues by the end of the next reporting period.

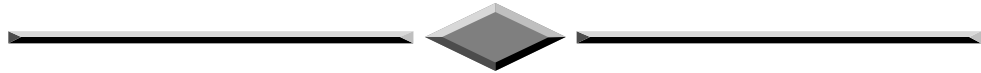
Contrary to our projection from the last period, the Office of Special Counsel (OSC) work on OPM related issues has not been completed. We anticipate that termination of the OSC's work in this agency will permit the Board to take action on other related open OIG investigative matters.



LEGISLATIVE AND REGULATORY REVIEWS

The OIG continues to review proposed legislation and regulations, as well as proposed agency instructions and other policy guidance, in order to make recommendations concerning economy and efficiency in the administration of NCUA programs and operations and the prevention and detection of fraud, waste and abuse.

During the reporting period, the OIG reviewed 15 items, including 14 proposed regulations and proposed revised Delegations of Authority. We had extensive comments on the Delegations, especially on those related to personnel authority.



OTHER OIG ACTIVITIES

STAFF TRAINING AND DEVELOPMENT

The Inspector General (IG) continued to participate in the Financial Institutions Regulatory Committee of the Executive Council on Integrity and Efficiency (ECIE). The Committee provides a forum for Inspectors General of the NCUA, the Federal Reserve, the Department of the Treasury, the Federal Deposit Insurance Corporation, the Federal Housing Finance Board, the Security and Exchange Commission, and the Farm Credit Administration to: discuss matters of mutual interest; coordinate relevant audits, investigations, legislative, and regulatory matters; and seek uniform approaches to handling similar issues.

IG Frank Thomas, the Assistant IG for Audits, Bill DeSarno, and two senior auditors, Charles Funderburk and Dwight Engelrup, attended the Internal Auditing in Government Conference sponsored by the Institute of Internal Auditors. The IG, the AIGA, three senior auditors and new EDP auditor Tammy Rapp, attended the Joint Financial Management and Improvement Program (JFMIP) conference in March 1999.

The Assistant IG for Investigations, Alexandra Keith, attended training on the "Reid Technique" of interviewing, and presented a legal update program at the Association of Directors of Investigation Conference at the Federal Law Enforcement Training Center in Glynco, Georgia.

OIG TRAINS "AUDIGATORS" FOR FUTURE INVESTIGATIVE WORK

The four OIG auditors underwent their first quarter of internal investigative training from the AIGI this March and April. They studied the basics of the IG's investigative duties and responsibilities in the IG Act and elsewhere, and walked through opening an investigative case. In the next quarter they will review investigative interviewing and legal analysis in detail. The IG directed that the training be presented to refresh the auditors' investigative skills so they will be well prepared when their assistance is required to handle OIG investigative cases.

The AIGI also presented a module on OIG and the Freedom of Information Act (FOIA) to NCUA's regional FOIA officers during their annual training course in Alexandria.

TABLE I

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS				
		Number of Reports	Questioned Costs	Unsup- ported Costs
A.	For which no management decision had been made by the start of the reporting period.	0	\$0	\$0
B.	Which were issued during the reporting period.	0	0	0
	Subtotals (A + B)	0	0	0
C.	For which management decision was made during the reporting period.	0	0	0
	(i) Dollar value of disallowed costs	0	0	0
	(ii) Dollar value of costs not disallowed	0	0	0
D.	For which no management decision has been made by the end of the reporting period.	0	0	0
E.	Reports for which no management decision was made within six months of issuance.	0	0	0

Questioned costs are those costs the OIG has questioned because of alleged violations of laws, regulations, contracts, or other agreements; findings which at the time of the audit are not supported by adequate documentation; or the expenditure for the intended purpose is unnecessary or unreasonable.

Unsupported costs (included in "Questioned Costs") are those costs the OIG has questioned because of the lack of adequate documentation at the time of the audit.

TABLE II

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE			
		Number of Reports	Dollar Value
A.	For which no management decision had been made by the start of the reporting period.	0	\$0
B.	Which were issued during the reporting period.	0	0
	Subtotals (A + B)	0	0
C.	For which management decision was made during the reporting period.	0	0
	(i) Dollar value of recommendations agreed to by management.	N/A	0
	(ii) Dollar value of recommendations not agreed to by management.	N/A	0
D.	For which no management decision was made by the end of the reporting period.	0	0
E.	For which no management decision was made within six months of issuance.	0	0

Recommendations that "Funds to be Put to Better Use" are those OIG recommendations that funds could be used more efficiently if management took actions to reduce outlays, de-obligate funds from programs/operations, avoid unnecessary expenditures noted in pre-award reviews of contracts, or any other specifically identified savings.

TABLE III

SUMMARY OF OIG ACTIVITY OCTOBER 1, 1998 THROUGH MARCH 31, 1999 (THREE PARTS)		
PART I – AUDIT REPORTS ISSUED		
Report Number	Title	Date Issued
991	Merit Promotion Audit	2-9-99
992	Year 2000 Waiver Process Review	3-31-99
993	Financial Audit: NCUA Operating Fund	3-31-99
994	Financial Audit: Share Insurance Fund	3-31-99
995	Financial Audit: Central Liquidity Facility	3-31-99
996	Financial Audit: Community Dev. Revolving Loan Program	3-31-99
	Joint Review of the Federal Financial Institutions Examination Council's Training Program	3-31-99
PART II – AUDITS IN PROCESS OR PLANNED (as of March 31, 1999)		
	Y2K Internal Systems Compliance and Project Management	
	Review of Credit Unions Without Waivers for Accurate Reporting of Y2K Renovation Phase	
	Y2K Credit Union Vendor Status	
PART III – REVIEWS OF STATUTES & REGULATIONS		
Regulations	Title	
12 CFR 708a	Conversion to Savings Bonds	
12 CFR 701.20, 713, 741.20	Surety Bond Coverage	
12 CFR 701	Prompt Corrective Action	
12 CFR 715	Supervisory Committee Audits and Verifications	
12 CFR 712	CUSO's	
12 CFR 701.21(g)	Assumption Real Estate Loans	
12 CFR 701.30, 701.38	Safe Deposit Boxes	
12 CFR 707	Truth in Savings	
12 CFR 705.9, 795.7(d)	CDCU Rate	
12 CFR 748	Know Your Member	
12 CFR 701	Interest Rate Services Ceiling	

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